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LATIN AMERICA TURNS TO EUROPE FOR ARMS Page 14

Dollar shortages, European trade promotion efforts, and an inability to obtain the desired types of US materiel have caused Latin American countries to turn increasingly to Europe as a source of military equipment.

ANGLO-SAUDI DISPUTE THREATENS WESTERN INTERESTS. Page 16

Conflicting Saudi Arabian and British territorial claims in the Persian Gulf area could interfere with the continued maintenance of the US airbase at Dhahran and hinder the operations of American and British oil companies. (SEE MAP)

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THE SOVIET WORLD

The agreement at Panmunjom adheres to the UN's stated principles of no forcible repatriation, no coercion, and no indefinite detention of prisoners. Peiping radio, representing the agreement as consistent with the "spirit" of the original Communist proposals, seems anxious both to save face and to preserve certain ambiguities in the text for possible later use.

Peiping's propaganda minimizes its concession on the critical issue, the ultimate disposition of prisoners who remain unwilling to be repatriated. Peiping states that the custodial commission "shall declare the relief (of POW's) from prisoner-of-war status to civilian status," but does not specify that the change is to be automatic and that the prisoners are to be physically freed. It also states that the ex-prisoners may go to "neutral states," without specifying that they may go wherever they choose.

The limitations imposed on Communist access to the prisoners during the 90-day "explanations" period appear to remove the basis for the frequently expressed confidence of the Communists that they could persuade the great majority of the unwilling to return. Should they fail to do so, the Communists might seek to obtain the continued detention of the prisoners as displaced persons, or contest their right to go to countries not approved by the Communists.

Meanwhile, the change to a Soviet civilian high commissioner in East Germany has been duplicated in Austria, where I. I. Ilyichev, former Soviet ambassador to Germany, was appointed high commissioner and General Sviridov's role became purely military. Soviet tactics in both countries will probably be directed toward settling minor matters on a four-power level as part of the effort to create a more conciliatory atmosphere. The Kremlin's easing of interzonal border controls over the movements of persons and goods, accompanied by other minor concessions in Austria, conforms to this pattern.

The standard Communist line on Germany, with strong emphasis on the creation of a unified, neutralized state on the basis of the Potsdam agreement, will be a leading theme at the Budapest World Peace Council meeting on 15 June, according to the Hungarian press. The meeting is also expected to call for discussions on Korea and the admission of Communist China to the United Nations.

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In Czechoslovakia, the currency reform of 30 May and the abolition of rationing have provoked the most violent public reaction in two years. Great dissatisfaction even among Communist party members and industrial workers sympathetic to the regime is reflected in reports of riots, strikes, and the declaration of martial law. Monitored Czech radio broadcasts as well as increased security measures in Prague reveal the government's concern over the mood of the people.

Western observers in the Czech capital consider the popular reaction to the currency reform a crucial test of the regime's control over the people. In the absence of effective opposition leaders, however, no open outbreaks are anticipated.

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USSR MAY BE PURSUING NEW POLICY TOWARD BALKAN
PACT POWERS

There are indications that the USSR may be adopting a more conciliatory policy toward the three states of the Balkan alliance and that the Soviet aide-memoire to Turkey on 31 May will be followed by other moves to improve relations with Greece and Yugoslavia.

The bankruptcy of Moscow's past policy in the area is marked by the USSR's failure to gain a strong position in the Turkish straits, Tito's defection and rapprochement with the West, and the Communist defeat in the Greek civil war. This policy resulted in extensive Western aid to Yugoslavia, Greece, and Turkey, the extension of NATO to the eastern Mediterranean, and Yugoslav participation in a Balkan alliance.

Moscow, confronted with the establishment of military bases on Orbit frontiers and Yugoslav-Greek-Turkish staff talks for further integration of military planning, apparently decided that a new approach based ostensibly on "good neighborly relations" would best serve its aims.

The Soviet aide-memoire to Ankara, renouncing territorial claims and expressing optimism over the possibility of finding a mutually acceptable solution for the straits question, was a sharp departure from Moscow's postwar policy toward Turkey. At the end of World War II, the Kremlin had renounced the Soviet-Turkish Treaty, made extensive territorial demands on northeastern Turkey, and insisted on sharing in the defense of the straits under a bilateral agreement. Soviet-Turkish relations had further deteriorated in 1951 when the USSR protested Turkey's proposed membership in NATO, with the veiled threat that the "responsibility for the results" of such a policy rested entirely on the Turkish government.

Turkey had rejected Soviet territorial claims and, supported by the United States and Great Britain, refused to consider a bilateral agreement on the straits excluding other powers concerned in preserving their international character. Similarly, it rejected the Kremlin's protest on Turkish membership in NATO.

The new Soviet regime now implies that it is willing to enter into discussions with Turkey, declaring that "the Soviet government . . . has considered it possible to assure the security of the Soviet Union from the direction of the straits

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under conditions equally acceptable to both." Whether any talks are actually held depends on the Turkish government, which may again insist on an international conference. According to Ambassador Bohlen, the Turkish ambassador to Moscow said on 3 June that he regarded the note as a clear expression of new Soviet tactics designed to normalize relations with neighboring countries and to clear the decks for a "return to diplomacy."

The presence in the USSR of Soviet diplomats from Ankara, Athens and Belgrade affords an opportunity for discussion of other moves to follow up the aide-memoire to Turkey in an effort to improve relations with the countries of the Balkan pact.

The first diplomatic contact since 1948 between the USSR and Yugoslavia occurred in an interview on 29 April between Foreign Minister Molotov and the Yugoslav charge, during which Molotov remarked that the Soviet Union numbered Yugoslavia among those countries desiring peace. On 18 May the Balkan expert Kirsanov was appointed Soviet charge to Belgrade, and on 9 June Molotov told the Yugoslav charge that the USSR desired to send another ambassador to Yugoslavia, expressing hope that Yugoslavia would reciprocate. Despite these moves, there appears little possibility that Yugoslavia will agree to a full rapprochement with the Kremlin.

Although Moscow has apparently made no significant overture, the resumption of Soviet-Greek relations on the ambassadorial level has been rumored for several weeks. Soviet diplomats made unusually friendly gestures toward Greece following Stalin's death, and the current trade talks between Greece and the USSR, according to the Greek radio, are proceeding "particularly" well.

The Soviet offers to normalize relations or ease points of friction are evidently intended to prevent the development of western bases and the implementation of Balkan pact planning. Kremlin maneuvers involving Yugoslavia specifically may also be designed to create distrust of Tito in the West and cause dissension among Yugoslav Communists.

Even if these offers are rejected, the Kremlin has again, at little cost to itself, made a show of willingness to improve relations and could charge the West with another refusal to meet it halfway. In any event it will probably have achieved some reduction of tension in the Balkans.

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THE WEST GERMAN CONSTITUTIONAL COURT CHALLENGE TO THE
BONN AND PARIS TREATIES

There is growing apprehension in Bonn that the Constitutional Court will declare the EDC treaty and the contractual agreement unconstitutional, at least in part. Since a constitutional amendment to permit rearmament would be impossible without the support of the opposition Social Democratic Party (SPD), an adverse court decision would threaten the Adenauer coalition and jeopardize any early German contribution to Western defense.

The Bundestag ratified the treaties in toto on 19 March, but the Bundesrat on 15 May approved only two of the four ratification bills on the grounds that these alone required upper house sanction. The SPD, which had previously challenged the content of the treaties, now contends that Bundesrat approval is necessary for the other two bills and also for the EDC treaty protocols negotiated this spring. These new complaints in themselves pose no big additional threat to the treaties, but are likely to delay the final court ruling at least until mid-July and very probably until after the September national elections.

Some hint of the coming decision was provided recently when four of the judges, three of them on the 11-man panel -- allegedly antigovernment -- considering the case, intimated to an American official that parts of the treaties would probably be declared unconstitutional. They seemed convinced that the SPD would later support rearmament legislation, and hence they may now consider a favorable decision less urgent.

Should the court rule against the main provisions of the two treaties, the Allies could probably do little to assist Adenauer. Should it merely find fault with some provisions of the conventions to the contractual agreement, the Allies might be able to expunge them as the conventions have more the status of executive agreements than of formal treaties.

In the short run, Adenauer may benefit from the new SPD moves since an adverse court decision before September would damage his party's election prospects. Nevertheless, the court's decision, whenever it comes, will probably have a major effect on the make-up of the next government coalition. An adverse decision would necessitate the participation of the Social Democrats in order to obtain passage of a rearmament amendment, and they have already stated that Adenauer would not be acceptable as chancellor in a "grand" coalition. They have also indicated they would insist on face-saving revisions in the treaties which would be difficult, perhaps impossible, to obtain.

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THE POOR FOOD SITUATION IN COMMUNIST CHINA

The outlook for Communist China's food production, the main factor in the country's prosperity, is poor this year, and the expected decline will have some adverse effect on the regime's economic development program. Last year's good harvest provided a food backlog, however, and Peiping probably has developed sufficient control over farm produce to ensure food supplies for its most important purposes.

Peiping originally announced a 1953 food production target nine percent over last year's, but after drought, late frost, pests and hailstorms in the principal wheat-growing provinces this spring, a mid-May announcement admitted that the wheat crop to be harvested in June would certainly decline. The food shortage this spring was more widespread than usual, although it did not reach the famine proportions reported by non-Communist news agencies.

Last year's harvests are estimated to have been substantially higher than any since the Communist victory in the civil war, approaching 141,000,000 metric tons, the average annual production from 1931 to 1937, of which approximately 100,000,000 tons is utilized by the farm population of 400,000,000.

Of the estimated 30,000,000 to 40,000,000 tons of food obtained by the state from the 1952 harvests, perhaps half is being supplied to industrial centers and cities, where rice has been cheap and unrationed. The rest is used for the large Chinese armies in China and Korea, government personnel, and for exports and reserves.

For the past three years food imports have been negligible, while food exports in 1952, consisting mostly of soybeans but also including some rice and other grains, totaled about 1,500,000 tons. At least half of this quantity is believed to have been shipped by rail to the Soviet Union.

Because of improved internal communications, tightened control over the farmers and their produce, and subsidization of food transportation costs, the Peiping regime probably is confident that it can collect enough food even in poor crop years to maintain exports and military supplies at the expense of domestic civilian consumption.

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CURRENT IRANIAN EFFORTS TO SELL OIL

Since 1951, when Iran nationalized its oil, only 74,000 tons have been hauled from Abadan, chiefly by two Italian companies and one Japanese. The Anglo-Iranian Oil Company, as it had threatened, brought court action in each case and succeeded in having the Italian shipments tied up pending further legal proceedings.

With these exceptions, none of the foreign firms which have been in contact with Iran has bought oil, although many contracts have been signed. No major oil company has made offers. There is no world shortage of crude oil, and the large companies apparently prefer to support AIOC, at least tacitly.

Inability to lease tankers has been one of the main factors in blocking sales. The shortage is easing, but there is no indication that any of the companies interested in Iranian oil actually controls an adequate number of tankers. AIOC used more than 300 tankers to haul its products out of Abadan.

Prime Minister Mossadeq has continued the sales effort despite the disappointing results. A short time ago, he publicly offered a 50 percent discount to Italian, Japanese and American companies.

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W. Alton Jones, president of Cities Service, who made a survey of the oil industry for the Iranian government in the fall of 1952, expressed to Ambassador Henderson at that time

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an interest in buying Iranian oil if Iran and Britain did not reach a settlement, and if the American government approved. No deal has yet been made.

A combine to purchase large quantities of oil apparently has been formed by EPIM and SUPOR, the Italian firms involved in the previous shipments, and Puma Oil Company, a combination of Panamanian, Swiss and Italian interests. The combine has at least five contracts with Iran totaling perhaps 36,000,000 tons of oil. It also claims to have a contract to sell to the United States armed forces and government.

Sale of oil at anything near the present volume would aid Iran only psychologically. The year before nationalization, it produced about 33,000,000 tons of crude. It is now producing about 2,500,000 tons, one half of which is being refined for internal use. The National Iranian Oil Company would have to sell about 4,500,000 tons of crude oil per year at current market prices to meet its payroll and operating expenses alone. With the heavy discounts now being offered, this amount would have to be doubled.

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YUGOSLAV EXPLOITATION OF SATELLITE REFUGEES

A number of "liberation committees" of Satellite refugees have been formed in Yugoslavia, and they, as well as individuals, are being used by the Tito regime in its "cold war" against the Satellites.

According to Yugoslav figures, some 10,000 refugees from the Eastern European Satellites belong to the various national "liberation committees." It is claimed that of this total, 475 were active members of various Satellite military units at the time of their defection. A majority are reported to be single, semi-educated young men with peasant or worker backgrounds.

Prior to 1951, Satellite escapees who failed to show enthusiasm for Titoism were treated as undesirables. After being detained in concentration camps, interrogated by the police, and employed as forced labor, they were literally dumped into Trieste or Greece.

Since 1951, however, Belgrade has attempted to persuade physically fit refugees to remain in the country, with the result that the flow of Orbit refugees to the West through Yugoslavia has been sharply reduced. Refugees who remain are given regular employment or a monthly subsidy.

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Thanks to Yugoslavia's special interest in Albanian affairs and the large Albanian minority in Yugoslavia, treatment of the 3,000 Albanian escapees is unique. Only a handful have entered Allied refugee centers. Under the guidance of highly competent Yugoslav experts, the League of Albanian Refugees - or the Prizren Committee, as it is sometimes called - was formed in 1951.

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A campaign is under way to promote the belief that liberation of Albania can be realized only through collaboration

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with this committee. [REDACTED]

there is evidence that a majority of the escapees have no love for the Tito regime.

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Because of a desire to exploit Macedonian irridentism, Yugoslavia is especially interested in Bulgarian refugees. Escapees from Bulgarian Macedonia have traditionally been treated by the Yugoslavs as a favored group in the Bulgarian refugee movement, whereas members of the old Agrarian Party were viewed with suspicion as anti-Communists. [REDACTED]

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Like its Albanian counterpart, the Bulgarian group operates under the supervision of the very capable Yugoslav partisan leader, Dusan Mugosa. Although there is no evidence that the Tito regime is any more popular with the Bulgarians than with the Albanians, it may be able in the long run to win over considerable support by stressing Bulgarian nationalism and tolerating all political elements.

The third largest group is the Hungarian, with some 2,300 members of a "league of Hungarian Political Refugees in Yugoslavia" established in the summer of 1952 to "mobilize all possible forces against the oppressors." Like the Rumanians and to a lesser extent the Bulgarians, most Hungarian refugees are of military age.

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Thus, during the past two years the Tito regime has shifted its refugee policy from one of discrimination against all non-Tito sympathizers to one of active espousal of "national liberation struggles" and support of all nationalistic refugee elements in Yugoslavia. Tito successfully employed similar popular front tactics to capture political leadership in Yugoslavia, and it is likely that he hopes one day to extend Yugoslav influence into other Balkan countries through the liberation committees.

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LATIN AMERICA TURNS TO EUROPE FOR ARMS

Arms standardization throughout the western hemisphere is threatened by the growing tendency of Latin American countries to turn to Europe as a source of military equipment, particularly aircraft. This return to the European market, which supplied much of Latin America's military needs prior to World War II, has been accelerated by dollar shortages, European trade promotion efforts, and an inability to obtain the desired types of American materiel.

Latin American military leaders have not all been satisfied with the quantities and types of equipment available through bilateral military agreements with the United States. National prestige, rather than the actual requirements of a sound hemispheric defense plan, are often the deciding factors, particularly when new weapons like jet planes are involved.

Argentina, Brazil, Venezuela and the Dominican Republic have been the largest investors in European aircraft, but other countries have shown increasing interest. Argentina has always depended heavily on the European arms market, and acquired its first British Gloster Meteor jet fighters five years ago. It now has 82 jets and 292 other European types among its 711 military aircraft.

Brazil, whose air force has been equipped with US planes, recently contracted to exchange 15,000 tons of cotton for 60 Meteor jets and ten jet trainers to be delivered during 1953. The British firms will supply spare parts, armament and service, and are also to train Brazilian pilots and engineers.

The Venezuelan air force, already 20 percent British-equipped, possesses 21 Vampire jet fighters, two British-built Sikorsky helicopters, and has received at least one Canberra jet light bomber [redacted] Venezuela, which has no dollar shortage, seems motivated largely by a desire to obtain jets, and plans are being made for the acquisition of six additional Canberras.

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In view of these developments, it is possible that prestige and security considerations will lead Chile to accept a recent offer of British jet fighters in exchange for copper

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and nitrates. At present, under US influence, Chile is pursuing a realistic ten-year program based on a need for patrol and transport aircraft.

In Latin America's small aircraft industry, European influence is also strong. The Cordoba plant in Argentina has generally produced European-type planes with the aid of European technicians. The Brazilian Geleao plant near Sao Paulo, the only other important aircraft factory in Latin America, is expected soon to convert to the production of European-type planes. The Netherlands Fokker Company has contracted with Brazil to convert this factory, and Rolls Royce is reportedly negotiating a contract to assemble the Derwent turbo-jet engine, which is used in both the Fokker S.14 and the Gloster Meteor.

Most of the major naval equipment acquired by Latin American countries in postwar years has been from the US, but some increase in European purchases is apparent. Venezuela is obtaining three new destroyers from Britain, and in March contracted for the purchase of three small destroyer-type vessels from Italy. Brazil is obtaining a number of small craft from the Netherlands.

Smaller military items are frequently sought in European markets because the price is more satisfactory. The Chilean navy, for example, is buying British radar for its single battleship, negotiating with Britain for ammunition for its US-built cruisers, and with Sweden for Bofors 40 mm. guns. The Brazilian navy last year turned to the Belgian Fabrique Nationale for 500 automatic rifles and 1,000,000 rounds of .30 cal. ammunition. Guatemala is now acquiring from a Swiss firm some \$200,000 worth of anti-aircraft weapons, mortars, half-tracks and ammunition.

The only Orbit country known to be involved in the Latin American arms traffic is Czechoslovakia, and that only on a commercial basis. Small arms and ammunition have been sold by the Czechs to military groups in Ecuador and to dealers in Central America.

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ANGLO-SAUDI DISPUTE THREATENS WESTERN INTERESTS

Conflicting Saudi Arabian and British territorial claims in the Persian Gulf and Arabian Sea areas contain the elements of a larger controversy which might limit the continued maintenance of the US airbase at Dhahran and hinder the operations of American and possibly also British oil companies (see map, p. 18).

The recent discovery of oil in the neutral zone just south of Kuwait has increased the importance of the entire region, aggravating the conflict of interests.

Britain's special relationship with the Persian Gulf sheikhdoms developed in the early part of the 19th century. The dispatch of a British fleet in 1819 to eliminate piracy in the area resulted in a series of treaties between the British and the sheikhs whose territories fronted on the gulf. Britain became a virtual protector in international matters; internal ones were left to the native rulers, who were free to determine their own local allegiances and territorial boundaries.

King Ibn Saud, who gained control over the major part of the Arabian peninsula in the early 1920's, has long regarded Britain's special treaty arrangements with the Persian Gulf sheikhdoms as conflicting with his own territorial claims. He has steadfastly protested against what he regards as a ring of British-dominated territory extending from Jordan, Iraq and Kuwait on the north, through Bahrein, Qatar and the Trucial Sheikdoms on the east, the Sultanate of Muscat and Oman and the Aden Protectorate on the south, up to the borders of Yemen.

The lack of a defined frontier from Qatar on the Persian Gulf around to Yemen on the Red Sea has resulted periodically in minor incidents. Bedouin tribes continually roam over the area, local chiefs often increase their territorial claims, and King Ibn Saud has constantly promoted counterclaims, as he attempted to improve his position.

The situation is complicated and the pressure on the various territorial claimants increased by the fact that the oil concessions of the Arabian American Oil Company (ARAMCO) embrace eastern Saudi Arabia, whereas the Iraq Petroleum Company which is largely British owned has concessions in the British-controlled sheikhdoms.

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British and Saudi attempts to solve their territorial dispute around the conference table in early 1952 failed after less than two weeks of negotiations. At that time Saudi Arabia laid claim to an outlet to the Persian Gulf directly south of the Qatar Peninsula.

In late August 1952, a Saudi force arrived at the Buraimi oasis, which was claimed by the sultan of Muscat. The latter, inspired by the protests of local sheikhs, organized an expedition with British assistance to force the Saudi troops to withdraw. Although the invading Saudis have been prevented from receiving reinforcements, they are still in the oasis.

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Although a major conflict is unlikely, the unresolved territorial dispute encourages border friction along the entire undemarcated frontier from the Qatar Peninsula to Yemen. Moreover, if a decision contrary to Ibn Saud's wishes is reached on the Buraimi problem, Saudi Arabia might consider the United States indirectly responsible and attempt to limit the agreement by which the US maintains its airbase at Dhahran. Saudi irritation might also result in restricting the operations of ARAMCO and other western firms in the region.

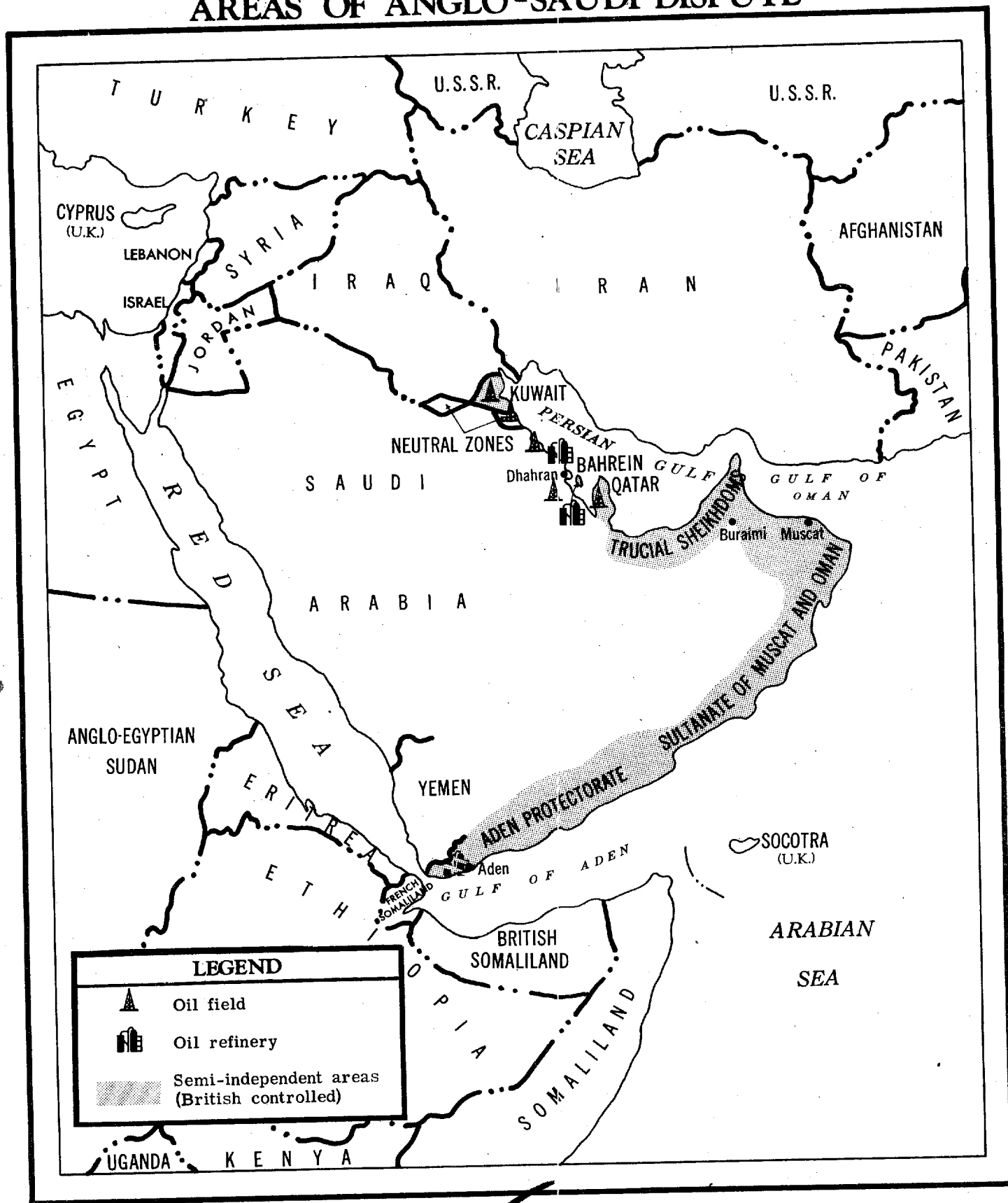
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